

## **RURAL DEVELOPMENT**

### **Statement of Thomas C. Dorr, Under Secretary for Rural Development, before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies.**

Mr. Chairman, members of the Subcommittee, I appreciate this opportunity to appear before you today to present the President's Fiscal Year (FY) 2007 Budget request for USDA Rural Development.

With me today are Jim Andrew, Administrator of our Rural Utilities Programs; Russell Davis, Administrator of our Rural Housing and Community Facilities Programs, and Jack Gleason, Acting Administrator of our Rural Business and Cooperative Programs.

On behalf of all of us, let me say that it is indeed a privilege for us to be here today representing over 6,800 dedicated men and women of USDA Rural Development. They are spread across every State and are your neighbors. They do an outstanding job.

And if I may, I would like to take just a moment to pay a special tribute to the extraordinary contributions so many of them made this past year under very difficult circumstances in the wake of the 2005 hurricanes. This is not the place for an extended discussion, but I do want to say that amidst all the controversies, a great deal of good work by good people has gone unremarked.

I have visited the Gulf Coast repeatedly since the hurricanes, and I have been inspired by the resiliency, commitment, and energy of hundreds of USDA Rural Development people in the affected areas. Some of them, in fact, had lost their own homes – but in those first days after landfall, all of them were working around the clock helping to provide emergency shelter, financial support, and transitional housing to evacuees. And they are hard at work now helping with the rebuilding of homes and businesses across the region.

We are a relatively small agency and, in the context of the hurricanes, a relatively small part of a much larger story. But this was truly a case where we punched above our weight. I am tremendously proud of the work our people did, and not just those in Louisiana, Mississippi, Alabama, and Texas, but also their colleagues around the country.

### **Vision**

Mr. Chairman, I am both honored and humbled by the opportunity President Bush has given me to serve as Under Secretary for Rural Development. I am committed to the future of rural America. My home is outside Marcus, Iowa, a metropolis of about 1,100. I am a farmer. I treasure the rural way of life and understand the pressures faced by rural communities in our rapidly urbanizing society. But I also believe that the traditions and values of rural America remain a vital part of our national heritage.

I believe also that the future of rural America is bright. Certainly there are challenges; there always are. But rural communities enjoy many assets as well: the quality of life, a clean environment, peace and quiet, livable small towns, a lower cost of living, strong communities, and traditional values. These are communities worth preserving, and they have a future well worth building.

The mission of USDA Rural Development is to provide leadership, infrastructure, venture capital, and technical support to enable rural communities to prosper in a dynamic new environment defined by globalization, the Internet revolution, and the rise of new technologies, products, and markets.

In this effort, we begin with the recognition that rural America is extraordinarily diverse. It includes some of the fastest growing communities in the Nation, areas that are suffering from long-term economic and population decline, and everything in between. One size does not fit all.

We understand as well that sustainable development must be market driven, not program dependent. And finally, we recognize that our role is to encourage and support local initiatives, both public and private. We know that our success depends on our ability to attract both private and other public partners; our success, indeed, is measured primarily by their success.

I believe in this mission. And I believe firmly that rural America today is more competitive ... more attractive as a place to live, work, and do business ... and better positioned for self-sustaining growth ... than has been the case for many years.

### **FY 2007 Budget Request**

The President's FY 2007 Budget proposes \$2.1 billion in budget authority and a program level of \$13.7 billion for rural housing, community facilities, infrastructure, and economic development. Under the USDA Rural Development programs, each Federal dollar supports 6.5 dollars of investments in rural America. We are also able to leverage our funds with those of the private sector, as well as create partnerships with State, local, and tribal governments, community development organizations, and for-profit and not-for-profit companies.

In a challenging budget environment, this is an important means of maximizing the return on scarce budget dollars. It should be emphasized, however, that this emphasis on leveraging is a sound policy choice quite independent of current budget constraints. Indeed, the evolution of program emphasis within USDA Rural Development has for some years been away from grants and direct loans and toward a greater reliance on loan guarantees. This has allowed us to serve more individuals, businesses, and communities for any given level of budget authority. It also reinforces our strategic objective of fostering sustainable development based, on market orientation and private investment.

I would like to touch briefly on some highlights of our FY 2007 request.

## **Rural Utilities Programs**

USDA Rural Development provides financing for electric, telecommunications, and water and wastewater services that enhance the quality of life and provide the foundation for economic development in rural areas. For FY 2007, the President's Budget proposes \$553 million in budget authority to support a program level of \$6.3 billion for rural utilities programs.

Of this total, \$3.8 billion is for the rural electric program. With the support of the President and Congress over the last several years, we have eliminated the backlog in electric program applications and believe that the funds proposed for FY 2007 will be sufficient to meet the demand.

In addition, the President's budget proposes \$1.414 billion in loans and grants for rural water and wastewater projects. To enhance the ability of low-income communities to finance vital water and wastewater improvements, we propose to change the calculation of the "poverty" interest rate for this program from the current fixed 4.5 percent to an adjustable rate set at 60 percent of the market rate. This change is reflected in the higher subsidy rate projected in FY 2007 for Water and Wastewater Program Direct Loans. We also continue to believe that in the current low interest rate environment, rural communities can afford to finance a higher share of project costs, and we therefore propose to shift the loan-grant ratio to an approximate 75-25 percent ratio.

The President's budget proposes \$690 million in telecommunications loans and the investment of \$356 million in loans to accelerate the deployment of broadband to rural communities. Broadband is fast becoming an essential tool for businesses, both large and small, and we are acutely aware that broadband deployment continues to lag in rural areas. Ensuring broadband access is essential to achieving a dynamic rural economy. The budget request is expected to be sufficient to meet the demand for the next year. This represents a reduction from the nominal FY 2006 program level of \$495 million, but as this Subcommittee knows, we have to date been unable to obligate all the broadband loan funds that Congress has made available to us. The volume of viable applications that either we or the Congress anticipated has simply not materialized.

It is clear, therefore, that the rural broadband deployment model must be improved. This has been a top priority since my confirmation last summer. We are now engaged in a thorough review to identify obstacles to borrower participation. In the meantime, we look forward to working with the Congress, the telecommunications industry, and rural stakeholders to accelerate deployment of this vital technology.

In addition, the President's budget includes \$24.8 million for the Distance Learning and Telemedicine (DLT) Grant Program, which enables rural communities to enhance their educational options and access the resources of big city medical centers via the Internet. This request maintains the FY 2006 program level for DLT Grant Program.

### **Rural Housing and Community Facilities Programs**

Safe, modern, affordable housing is essential to healthy communities. USDA Rural Development works to extend the benefits of homeownership to low- and moderate-income Americans and to historically disadvantaged communities. We finance affordable rental housing and essential repairs for low- and very-low income homeowners. We also assist rural communities in providing quality health care, police and fire services, day care, educational and recreational facilities, and other essential community services.

The FY 2007 budget request for rural housing and community facilities exceeds \$6.27 billion. This includes an increase in funding for both direct and guaranteed homeownership loans, to \$1.2 billion and \$3.56 billion, respectively. We anticipate that this level of funding will provide homeownership opportunities for over 40,000 rural families. In order to meet this goal, we propose raising the guarantee fee from 2 percent to 3 percent. This nominal increase will provide an additional \$2.86 billion in single family guaranteed loans.

For multi-family housing, the budget proposes shifting funding from direct to guaranteed lending in order to increase our leveraging and serve more residents at a lower cost. A total of \$198 million – double the FY 2006 program level for guaranteed lending – is requested for this purpose.

We also propose \$486 million for rental assistance, a figure which reflects a shift from 4 to 2 year contracts. We believe it is unnecessary to renew contracts for 4 years

especially while revitalization is underway, and the Administration remains committed to renewing contracts as needed. However, 2 years is the minimum contract term the program should have to operate efficiently from year to year.

In addition, the budget proposes \$74 million to fund our multi-family housing revitalization initiative. As this Subcommittee knows, the multi-family housing portfolio faces longstanding issues of deferred maintenance. This is compounded by the threat of prepayment by the owners of some complexes who may wish to exit the program, leading to the displacement of significant numbers of elderly and low-income tenants. The \$74 million will fund the voucher program to help displaced tenants from USDA financed multifamily housing properties where the owner has chosen to pre-pay the Rural Development loan and withdraw the property from the program. The \$74 million is proposed in the Budget solely for funding the anticipated need for the voucher program. Funding debt restructuring without the proper legislative authorizations in place would be premature. However, in order to allow for balancing of needs in anticipation of the new authorization passing, the appropriations language does allow for the funds to be used for this purpose if debt restructuring authorization language is enacted. While modest in budgetary terms, this is a very significant investment in the long-term stabilization and revitalization of the rural rental housing portfolio.

Finally, the budget proposes to increase the program levels for the Farm Labor and Self Help Housing Programs to \$55 million and \$38 million, respectively. It continues Community Facilities Loans and Grants at their FY 2006 levels.

## **Rural Business and Cooperative Programs**

The third leg of the Rural Development stool is business development and job creation. The future of rural communities depends on their ability to attract and regain young families. A diversified, growing rural business sector is essential to offering opportunity to young adults and a future to growing families.

To support these goals, the President's budget for FY 2007 requests \$103 million in budget authority to support a program level of \$1.138 billion for our Rural Business and Cooperative Programs.

Our request for FY 2007 is – as it was last year – consistent with the Strengthening American Communities Initiative, which called for a consolidation of several economic development programs within the Department of Commerce. We are confident of our ability to partner with the Department of Commerce to ensure that rural America participates fully in this broader funding pool.

Of the programs remaining in USDA Rural Development, the Business and Industry Guaranteed Loan Program (B&I) accounts for approximately 42 percent of proposed budget authority and 87 percent of total program level for FY 2007. We will also continue to provide technical assistance, development, and research support for rural cooperatives, targeted investment in alternative energy and energy conservation, and support for intermediary lending institutions through a variety of smaller programs. We

estimate that total business program investment in FY 2007 will create or save over 56,000 jobs.

### **Closing**

In closing, Mr. Chairman, I want to emphasize that the bottom line for USDA Rural Development is not budget numbers; it is water lines laid, families able to afford a new home, new businesses and jobs created or saved, and rural communities strengthened by what we do. It is a privilege to work with the members of this Subcommittee to advance these objectives despite the stringent budget environment we face today. This concludes my formal statement and I will be glad to answer any questions you may have.